Business Executives' Expectations

A Quarterly Report from The Conference Board
Based on a Survey of Chief Executives

B86 R 4105-37A

Third Quarter 1985

BUSINESS CONFIDENCE REMAINS SUBDUED

Top-executive confidence in the U.S. economy remains lukewarm. The Conference Board's *Measure of Business Confidence*, a mix of business leaders' appraisal of current economic conditions and their expectations about the future, now stands at 51, down from 52 in the second quarter and 61 in the first quarter. While the economy continues to operate at a fairly high level, the mild optimism of early 1985 has not, as yet, been rekindled.

No Improvement in Current Economic Conditions

Many of the more than 1,000 business leaders surveyed this quarter continue to report no improvement in current economic conditions. Two-fifths of them consider the economy to actually be in worse shape now than six months ago. Another two-fifths find conditions unchanged, while only one-fifth see an improvement in economic conditions. Half of those reporting improved business conditions are executives in the banking and financial services industries.

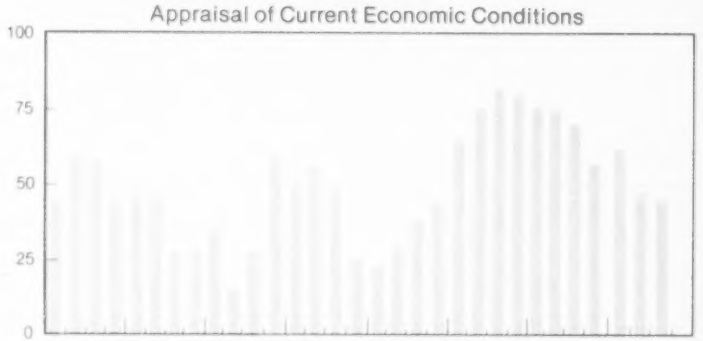
Little Optimism for Next Six Months

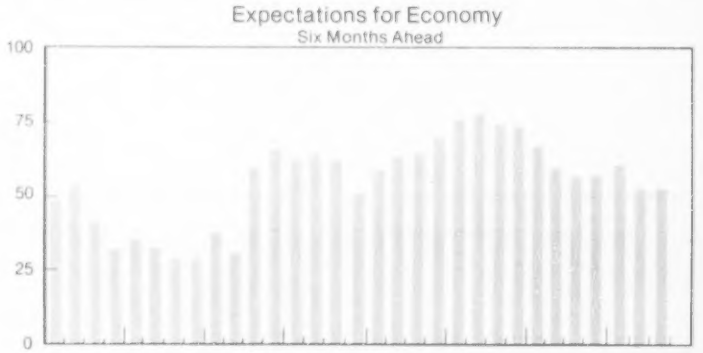
Business executives' optimism about the immediate future is muted, as well. Only about one-third foresee better business conditions developing during the next six months. More than two-fifths of the respondents expect economic conditions to remain unchanged during the next six months; nearly one-quarter predict worsening economic conditions.

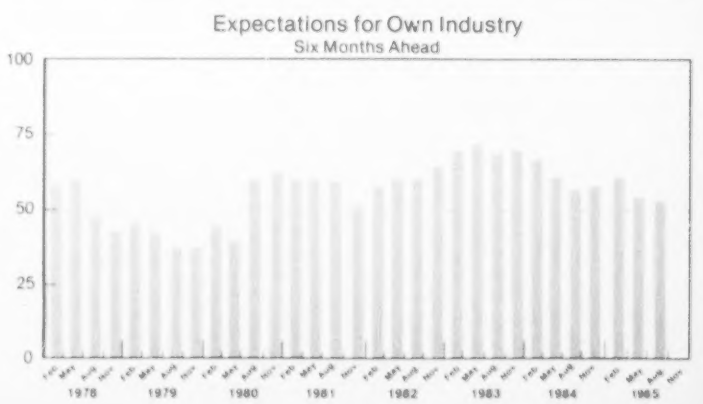
Some industries do report more optimistic expectations than in the second-quarter survey, especially the paper, chemicals, transportation and transportation equipment industries. However, in the construction and construction-related industries as well as in public utilities and business services, expectations are even weaker than in the last survey. (See Table 2)

Proposed Tax Reform Will Have Negative Effect on Capital Investment

The third quarter survey contained a special question relating to proposed tax reform and capital investment: "Suppose the investment tax credit and accelerated depreciation are eliminated and the corporate tax rate is lowered to 33%. How would you revise your long-range capital spending plans?" The vast majority (73%) of respondents said such changes in the tax code would have no effect on their capital spending plans (see Table 1). Twenty percent said the tax code revision would lower capital spending, while only 7% said they would actually plan to spend more.







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Industries where the survey indicates capital spending plans would be reduced significantly include paper, machinery, petroleum, mining, communications, construction and transportation. A frequently cited reason was the negative impact on cash flow of the proposed tax changes. Many respondents indicating upward revisions of capital spending plans felt that the effects of positive economic growth caused by the tax reform would outweigh the loss of the investment tax credit and accelerated depreciation.

Douglas Cliggott

Table 1: Percent of Companies Reporting a Revision of Long-Range Capital Investment Plans

	Up 5% or more	*Up less than 5%*	*No revision*	*Down less than 5%*	*Down 5% or more*
All industries	2%	5%	73%	9%	11%
Manufacturing	2	5	72	9	12
Mining	0	0	63	12	25
Transportation	0	5	63	5	27
Public Utilities	0	2	81	13	4
Construction	0	6	61	11	22
Commercial and other	2	6	73	10	9

Table 2: BUSINESS EXECUTIVES' EXPECTATIONS

	1982			*1983*				*1984*				*1985*		
	May	*Aug*	*Nov*	*Feb*	*May*	*Aug*	*Nov*	*Feb*	*May*	*Aug*	*Nov*	*Feb*	*May*	*Aug*
MEASURE OF BUSINESS CONFIDENCE	52	55	60	70	76	75	74	70	65	61	57	61	52	51
1. Current Economic Conditions vs. 6 Months Ago	30	38	44	65	76	82	80	76	75	70	57	62	48	45
2. Expectations for Economy, 6 Months Ahead	64	65	70	76	78	74	73	67	60	57	57	61	53	53
3. Expectations for Own Industry, 6 Months Ahead	61	61	65	70	72	69	70	67	61	57	58	61	55	54
4. Current Conditions in Own Industry vs. 6 Months Ago	32	36	44	57	67	71	70	70	67	62	55	57	51	47

	Current Conditions in Own Industry Compared With 6 Months Ago						Expectations for Own Industry, 6 Months Ahead					
	1984			*1985*			*1984*			*1985*		
	May	*Aug*	*Nov*	*Feb*	*May*	*Aug*	*May*	*Aug*	*Nov*	*Feb*	*May*	*Aug*
Manufacturing	72	60	50	51	44	41	62	54	56	61	52	53
Food	57	52	50	47	44	43	60	60	52	65	49	52
Textiles	55	34	21	29	42	40	51	41	48	54	48	46
Apparel	66	50	37	41	48	36	56	50	54	63	54	52
Paper	79	60	51	48	33	38	54	54	59	58	56	62
Printing, Publishing	73	60	49	61	56	50	64	56	59	62	60	59
Chemicals	76	64	48	48	43	45	61	55	49	60	49	59
Rubber	75	69	61	53	38	29	58	45	55	69	50	48
Lumber, Furniture	72	57	45	63	37	40	60	50	55	69	58	52
Stone, Clay, Glass	77	68	56	58	53	49	63	49	50	62	58	51
Primary Metals	78	55	44	50	42	39	62	53	53	63	52	55
Fabricated Metals	72	63	55	55	47	45	64	59	59	61	59	55
Nonelectrical Machinery	74	63	58	54	47	41	65	63	63	58	48	46
Electrical Machinery	81	69	48	55	37	31	67	56	59	64	53	54
Transportation Equipment	76	64	63	57	43	41	66	52	61	68	51	57
Instruments	67	50	55	60	50	39	61	55	61	69	46	45
Mining	70	59	45	36	42	38	64	53	52	48	50	53
Construction	59	62	57	63	57	51	62	55	58	60	62	49
Transportation	74	65	57	56	42	51	61	55	58	61	50	56
Electric, Gas Utilities	66	69	67	65	55	51	57	62	63	64	58	50
Wholesale Trade	68	58	48	50	44	42	57	52	54	60	53	52
Retail Trade	60	64	54	44	47	45	64	62	58	63	56	59
Banking	62	66	60	66	58	54	59	59	61	61	57	54
Other Finance	50	53	63	78	76	76	48	58	68	67	64	61
Insurance	60	62	65	71	64	63	58	62	62	60	63	62
Business Services	67	68	63	62	62	50	68	64	60	62	58	52

The **Measure of Business Confidence** is the average of the scores for Questions 1,2, and 3. There are five reply options for each question, a score for each question is determined by assigning the following values to the replies and calculating the average: Substantially Better—100, Moderately Better—75, Same—50, Moderately Worse—25, Substantially Worse—0. The score for each question, and the **Measure of Business Confidence**, thus can range from 0 to 100.

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Business Executives' Expectations

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R4105-37A

Fourth Quarter 1985

BUSINESS CONFIDENCE MOVES UP MODESTLY

Top executives are taking a brighter view of the U.S. economy according to The Conference Board's **Measure of Business Confidence.** This index, based on business leaders' appraisals of current and future economic conditions, stood at 55 in the fourth quarter, up from 51 in the third quarter and 52 in the second quarter. Many business leaders have made their organizations more efficient and expect improved earnings in 1986, even if growth is only moderate.

Current Economic Conditions Improve

One-third of the 1,000 top executives surveyed this quarter report improving economic conditions, up from only one-fifth in last quarter's survey. Following declines in interest rates, executives in the banking and finance industries report better business conditions. The dollar decline may be partly responsible for the sharp improvement that paper and textile industry executives see.

Perhaps more importantly, the share of executives citing deteriorating conditions was cut in half, from two-fifths to one-fifth. This shift was most evident in the manufacturing sector, where business conditions in several industries had been sliding (see Table 2).

A Glimmer of Optimism for Next Six Months

Business leaders' expectations about the future also rose slightly. Executives who foresee improved conditions outnumber those expecting a decline by more than 2 to 1. However, more than two fifths of the survey repondents expect no significant change in business conditions during the next six months.

Industries with more optimistic expectations than in recent surveys include machinery, instruments, rubber and textiles. But optimism about the immediate future remains muted in the construction-related industries (such as lumber and stone, clay & glass).

Targeted Profits Up in 1986

Two thirds of survey respondents say that their organizations have set 1986 profit targets above their 1985 levels. (See Table 1.) One-third are looking for profit gains of more than 5%; another third aim for gains between 1% and 5%.

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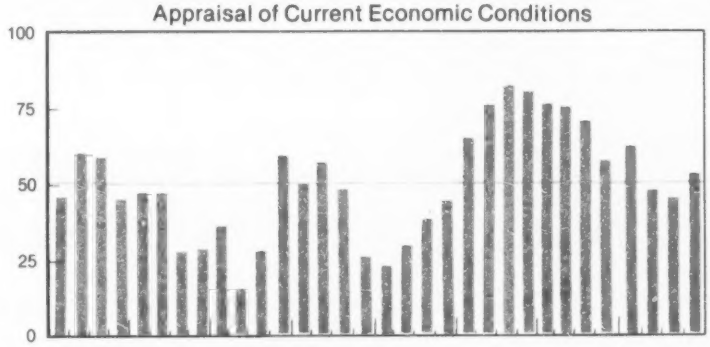
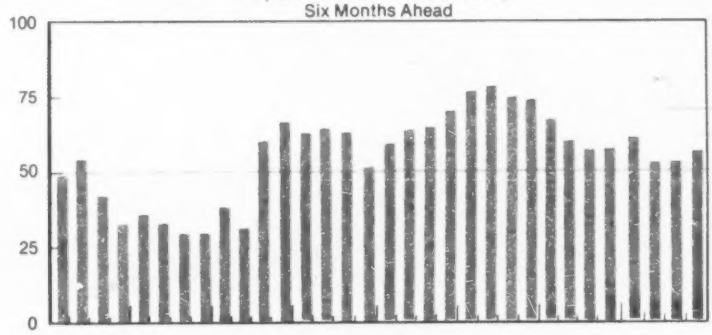
Measure of Business Confidence

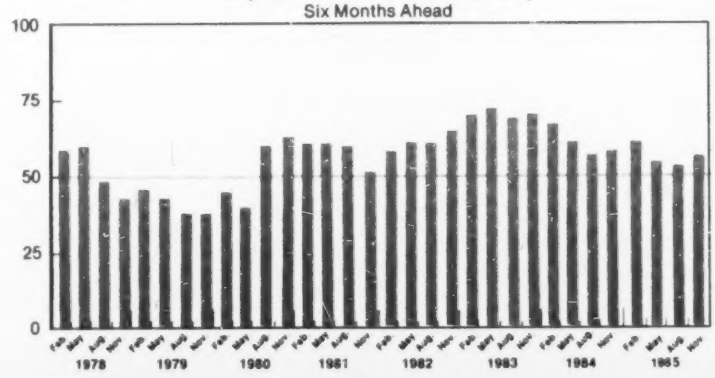
Appraisal of Current Economic Conditions



Expectations for Economy
Six Months Ahead



Expectations for Own Industry
Six Months Ahead



In many cases, the increase in targeted profits reflects organizational restructuring rather than hopes for significant sales gains.

As with their expectations about general business conditions, top executives in the mining and construction industries are less optimistic about profit gains in 1986 than are their peers. Banking and finance executives, on the other hand, are a bit more optimistic about both profits and general business conditions than the overall average.

Douglas Cliggott

Table 1: 1986 Profit Targets compared with 1985 levels

	Up more than 5%	*Up 1% to 5%*	*No change*	*Down 1% to 5%*	*Down more than 5%*
All industries	35%	33%	15%	11%	6%
Manufacturing	36	32	15	10	7
Mining	27	27	6	27	13
Transportation	24	45	29	0	12
Public Utilities	9	48	26	12	5
Construction	26	26	9	22	17
Banking and Finance	45	32	13	8	2
Trade	27	38	13	15	7
Other	39	28	15	13	5

Table 2: BUSINESS EXECUTIVES' EXPECTATIONS

	1982		*1983*				*1984*				*1985*			
	Aug	*Nov*	*Feb*	*May*	*Aug*	*Nov*	*Feb*	*May*	*Aug*	*Nov*	*Feb*	*May*	*Aug*	*Nov*
MEASURE OF BUSINESS CONFIDENCE	55	60	70	76	75	74	70	65	61	57	61	52	51	55
1. Current Economic Conditions vs. 6 Months Ago	38	44	65	76	82	80	76	75	70	57	62	48	45	53
2. Expectations for Economy, 6 Months Ahead	65	70	76	78	74	73	67	60	57	57	61	53	53	56
3. Expectations for Own Industry, 6 Months Ahead	61	65	70	72	69	70	67	61	57	58	61	55	54	56
4. Current Conditions in Own Industry vs. 6 Months Ago	36	44	57	67	71	70	70	67	62	55	57	51	47	53

	Current Conditions in Own Industry Compared With 6 Months Ago						Expectations for Own Industry, 6 Months Ahead					
	1984		*1985*				*1984*		*1985*			
	Aug	*Nov*	*Feb*	*May*	*Aug*	*Nov*	*Aug*	*Nov*	*Feb*	*May*	*Aug*	*Nov*
Manufacturing	60	50	51	44	41	49	54	56	61	52	53	55
Food	52	50	47	44	43	46	60	52	65	49	52	55
Textiles	34	21	29	42	40	67	41	48	54	48	46	56
Apparel	50	37	41	48	36	52	50	54	63	54	52	50
Paper	60	51	48	33	38	57	54	59	58	56	62	59
Printing, Publishing	60	49	61	56	50	46	56	59	62	60	59	63
Chemicals	64	48	48	43	45	47	55	49	60	49	59	55
Rubber	69	61	53	38	29	43	45	55	69	50	48	59
Lumber, Furniture	57	45	63	37	40	48	50	55	69	58	52	50
Stone, Clay, Glass	68	56	58	53	49	57	49	50	62	58	51	47
Primary Metals	55	44	50	42	39	46	53	53	63	52	55	54
Fabricated Metals	63	55	55	47	45	50	59	59	61	59	55	56
Nonelectrical Machinery	63	58	54	47	41	47	63	63	58	48	46	53
Electrical Machinery	69	48	55	37	31	48	56	59	64	53	54	61
Transportation Equipment	64	63	57	43	41	42	52	61	68	51	57	51
Instruments	50	55	60	50	39	52	55	61	69	46	45	63
Mining	59	45	36	42	38	41	53	52	48	50	53	47
Construction	62	57	63	57	51	53	55	58	60	62	49	45
Transportation	65	57	56	42	51	53	55	58	61	50	56	54
Electric, Gas Utilities	69	67	65	55	51	53	62	63	64	58	50	58
Wholesale Trade	58	48	50	44	42	47	52	54	60	53	52	57
Retail Trade	64	54	44	47	45	46	62	58	63	56	59	53
Banking	66	60	66	58	54	58	59	61	61	57	54	58
Other Finance	53	63	78	76	76	79	58	68	67	64	61	65
Insurance	62	65	71	64	63	60	62	62	60	63	62	62
Business Services	68	63	62	62	50	51	64	60	62	58	52	60

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Business Executives' Expectations

A Quarterly Report from The Conference Board
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R4105-37A

First Quarter 1986

BUSINESS CONFIDENCE CONTINUES TO RISE

Top executives are more and more sanguine about the U.S. economy, according to The Conference Board's **Measure of Business Confidence.** This index, based on business leaders' appraisals of current and future economic conditions, stood at 61 in the first quarter, up from 55 in the fourth quarter and 51 in the third quarter. But there are some limits to their optimism: A large majority of respondents do not anticipate the need to increase employment during 1986.

Current Economic Conditions Improve

Business conditions are improving throughout the economy. More than two-fifths of the 1,000 top executives surveyed this quarter report better conditions in their own industries, up from only one-third in last quarter's survey. Improvement is particularly noticeable in the manufacturing sector (see Table 3).

Some regions and industries remain weak, however, and one executive in five continues to report deteriorating business conditions. Many of these executives head firms in the petroleum, mining and construction industries.

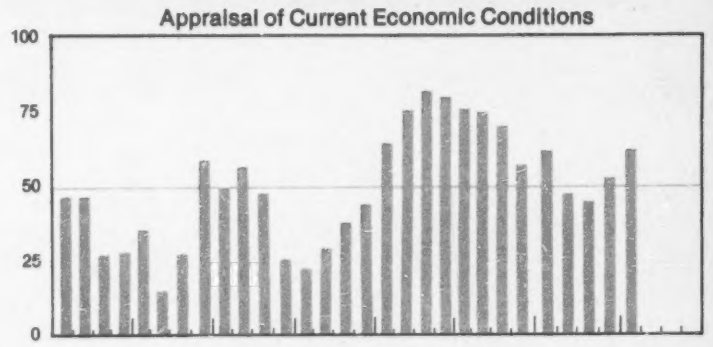
Strengthened Optimism for Next Six Months

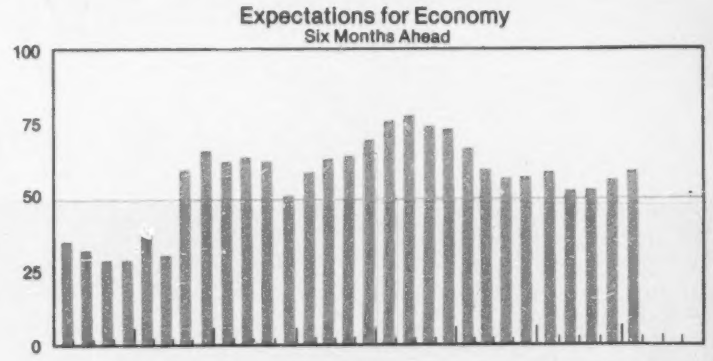
Business leaders' expectations about the future also rose throughout the economy (see Table 3). Executives who foresee improved conditions in their own industry now outnumber those expecting a decline by more than 3 to 1.

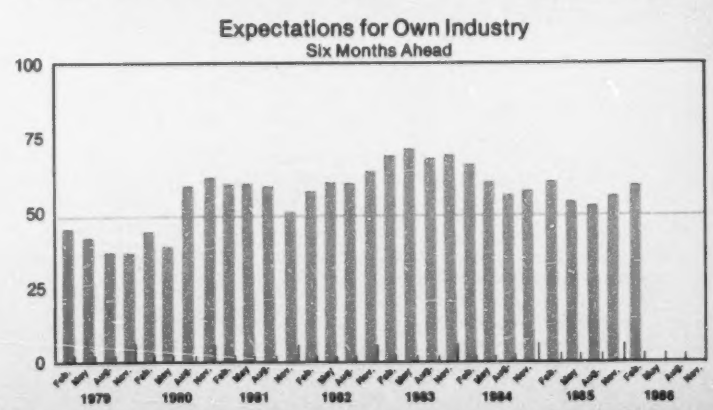
But there are exceptions to the generally optimistic outlook. Reflecting the undesired build-up in inventory of many automobile models, the transportation equipment industry reported a further decline in expectations. The immediate future does not appear very bright to executives in the construction industry either.

Employment Growth Likely to Slow In 1986

Despite expecting an improved economy during the next six months, a large number of top executives look for no change or a decrease in employment in their own industries during 1986. Only 30 percent of respondents expect employment to increase, down from 34 percent a year ago. Employment growth is likely to be particularly weak in the manufacturing sector, where only 23 percent expect an increase in employment and 35 percent expect a decline. Many manufacturing executives feel they can meet planned increases in output with their current, or even slightly smaller, work forces.







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Roughly one executive in five expects it will be harder to find new employees with the desired skill-levels in 1986, about the same as in 1984 and 1985. With relatively low employment growth expectations, it is not surprising that manufacturing executives remain less concerned about meeting staffing needs than top executives in other sectors of the economy (see Table 2).

Douglas Cliggott

Table 1: Expected Change in Own-Industry Employment (percent of respondents)

	1980	1981	1982	1983	1984	1985	1986
Increase	30%	36%	20%	37%	50%	34%	30%
No Change (+ 1%)	44	43	39	43	35	42	42
Decrease	26	21	41	20	15	24	28

Table 2: Percent Expecting Greater Difficulty Finding Qualified Employees in Current Year

	1980	1981	1982	1983	1984	1985	1986
All Industries	36%	26%	13%	8%	21%	22%	21%
Manufacturing	36	20	9	7	21	18	17
Non-Manufacturing	36	30	16	n.a.	22	24	25

Table 3: BUSINESS EXECUTIVES' EXPECTATIONS

	1982	1983				1984				1985				1986
	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.
MEASURE OF BUSINESS CONFIDENCE	60	70	76	75	74	70	65	61	57	61	52	51	55	61
1. Current Economic Conditions vs. 6 Months Ago	44	65	76	82	80	76	75	70	57	62	48	45	52	63
2. Expectations for Economy, 6 Months Ahead	70	76	78	74	73	67	60	57	57	61	53	53	56	62
3. Expectations for Own Industry, 6 Months Ahead	65	70	72	69	70	67	61	57	58	61	55	54	56	59
4. Current Conditions in Own Industry vs. 6 Months Ago	44	57	67	71	70	70	67	62	55	57	51	47	53	57

	Current Conditions in Own Industry Compared With 6 Months Ago						Expectations for Own Industry, 6 Months Ahead					
	1984	1985				1986	1984	1985				1986
	Nov.	Feb.	May	Aug.	Nov.	Feb.	Nov.	Feb.	May	Aug.	Nov.	Feb.
Manufacturing	50	51	44	41	49	55	56	61	52	53	55	60
Food	50	47	44	43	46	49	52	65	49	52	55	55
Textiles	21	29	42	40	67	72	48	54	48	46	56	54
Apparel	37	41	48	36	52	54	54	63	54	52	50	61
Paper	51	48	33	38	57	57	59	58	56	62	59	69
Printing, Publishing	49	61	56	50	46	59	59	62	60	59	63	63
Chemicals	48	48	43	45	47	60	49	60	49	59	55	66
Rubber	61	53	38	29	43	48	55	69	50	48	59	66
Lumber, Furniture	45	63	37	40	48	61	55	69	58	52	50	56
Stone, Clay, Glass	56	58	53	49	57	48	50	62	58	51	47	58
Primary Metals	44	50	42	39	46	54	53	63	52	55	54	57
Fabricated Metals	55	55	47	45	50	57	59	61	59	55	56	59
Nonelectrical Machinery	58	54	47	41	47	50	63	58	48	46	53	58
Electrical Machinery	48	55	37	31	48	59	59	64	53	54	61	65
Transportation Equipment	63	57	43	41	42	46	61	68	51	57	51	46
Instruments	55	60	50	39	52	54	61	69	48	45	63	64
Mining	45	36	42	38	41	41	52	48	50	53	47	54
Construction	57	63	57	51	53	42	58	60	62	49	45	43
Transportation	57	56	42	51	50	50	58	61	50	56	54	66
Electric, Gas Utilities	67	65	55	51	53	56	63	64	58	50	58	55
Wholesale Trade	48	50	44	42	47	58	54	60	53	52	57	59
Retail Trade	54	44	47	45	46	52	58	63	56	59	53	56
Banking	60	66	58	54	58	63	61	61	57	54	58	60
Other Finance	63	78	76	76	79	74	68	67	64	61	65	65
Insurance	65	71	64	63	60	68	62	60	63	62	62	64
Business Services	63	62	62	50	51	58	60	62	58	52	60	55

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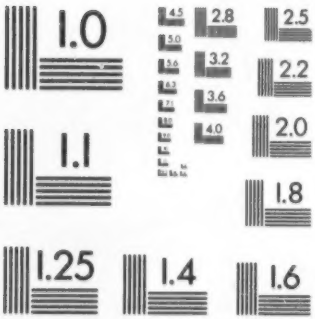

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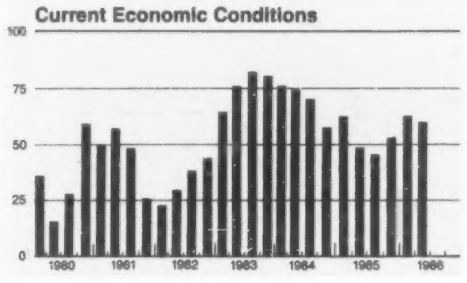
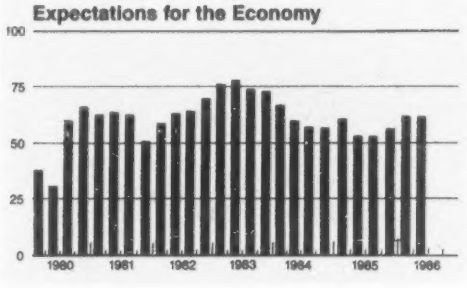
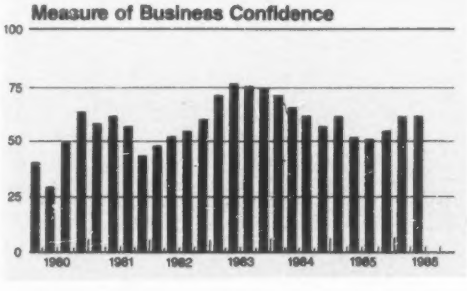
70th Anniversary

Business Executives' Expectations

A Quarterly Report from The Conference Board **Second Quarter 1986**







Current Economic Conditions Improve

U.S. Business conditions strengthened somewhat during the first half of 1986, according to 1,000 top executives surveyed this quarter. More than half of those surveyed feel that the economy has improved during the last six months, while only one in ten holds the view that the economy has weakened during that period. Taken together, this set of views produced a reading of 61 in the *Current Economic Conditions* index. Top executives are somewhat less upbeat in their appraisal of conditions in their own industries, however. Only about two-fifths feel conditions have improved in their own sectors during the past six months, and one in four reports worsening business conditions. Weakness is particularly acute in the petroleum and mining industries (see Table 4).

Outlook for Next Six Months is Positive

Business leaders continue to be fairly optimistic about the near-term economic outlook. With over one-half of surveyed executives expecting a stronger economy during the next six months, the *Expectations for Economy* index held steady in the second quarter at 62. While this does not point to an imminent economic upsurge, it does indicate some strengthening ahead. The only industry where pessimism prevails is contract construction (see Table 4). Executives in the petroleum and mining industries expect the situation to stabilize during the remainder of 1986.

Business Confidence is Stable

Given both the perception of general, if modest, improvement in current economic conditions, and the expectation of some strengthening over the next six months, The Conference Board's *Measure of Business Confidence* registered a firm 61 in the second quarter, unchanged from last quarter (see Chart).

Little Growth in Capital Spending Expected

Reflecting this stability in Business Confidence, a large majority (71%) of surveyed executives report no significant revision in their 1986-1987 capital spending programs from six months ago. The remaining respondents are evenly split between upward and downward revisions (see Table 1). As is usual, the most frequently cited reason for revising capital spending plans is a change in expected sales volume (see Table 2). But this "evenness" is misleading as many of the executives reporting downward revisions head firms in the petroleum and mining industries, which are relatively capital intensive and tend to have very large capital spending programs. Thus, cutbacks in planned spending in these industries will be larger, in dollar terms, than the planned increases in other industries. The result is likely to be little, if any, overall growth in capital spending from the 1985 level. Such a result would preclude the possibility of rapid economic growth in the near-term.

Douglas Cliggott

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Table 1: PERCENT OF COMPANIES REPORTING REVISION OF CAPITAL INVESTMENT PROGRAMS

	Up 10% or more	Up less than 10%	No revision	Down less than 10%	Down 10% or more
ALL INDUSTRIES	6%	9%	71%	8%	6%
Manufacturing	7	10	63	11	9
Mining	6	6	6	13	69
Transportation	10	19	43	14	14
Public Utilities	4	10	67	11	8
Construction	6	0	65	6	23
Commercial and other	7	8	73	7	5

Table 2: REASONS FOR REVISION*

Upward	
Cost of capital fell	14%
Expected return increased	20%
Expected sales volume increased	55%
Other	30%
Downward	
Cost of capital increased	2%
Expected return fell	36%
Expected sales volume fell	53%
Other	24%

*Percentages do not sum to 100% because of multiple responses.

Table 3: BUSINESS EXECUTIVES' EXPECTATIONS

	1983			*1984*				*1985*				*1986*	
	May	*Aug.*	*Nov.*	*Feb.*	*May*	*Aug.*	*Nov.*	*Feb.*	*May*	*Aug.*	*Nov.*	*Feb.*	*May*
MEASURE OF BUSINESS CONFIDENCE	76	75	74	70	65	61	57	61	52	51	55	61	61
1. Current Economic Conditions vs. 6 Months Ago	76	82	80	76	75	70	57	62	48	45	53	63	61
2. Expectations for Economy, 6 Months Ahead	78	74	73	67	60	57	57	61	53	53	56	62	62
3. Expectations for Own Industry, 6 Months Ahead	72	69	70	67	61	57	58	61	55	54	56	59	60
4. Current Conditions in Own Industry vs. 6 Months Ago	67	71	70	70	67	62	55	57	51	47	53	57	54

Table 4: OWN INDUSTRY INDEXES

	Current Conditions					Expectations for Next 6 Months				
	1985			*1986*		*1985*			*1986*	
	May	*Aug.*	*Nov.*	*Feb.*	*May*	*May*	*Aug.*	*Nov.*	*Feb.*	*May*
Manufacturing	44	41	49	55	52	52	53	55	60	59
Food	44	43	46	49	50	49	52	55	55	59
Textiles	42	40	67	72	72	48	46	56	54	58
Apparel	48	36	52	54	40	54	52	50	61	60
Paper	33	38	57	57	59	56	62	59	69	68
Printing, Publishing	56	50	46	59	48	60	59	63	63	58
Chemicals	43	45	47	60	63	49	59	55	66	66
Rubber	38	29	43	48	58	50	48	59	66	67
Lumber, Furniture	37	40	48	61	60	58	52	50	56	67
Stone, Clay, Glass	53	49	57	48	57	58	51	47	58	55
Primary Metals	42	39	46	54	48	52	55	54	57	53
Fabricated Metals	47	45	50	57	52	59	55	56	59	55
Nonelectrical Machinery	47	41	47	50	44	48	46	53	58	57
Electrical Machinery	37	31	48	59	56	53	54	61	65	64
Transportation Equipment	43	41	42	46	49	51	57	51	46	56
Instruments	50	39	52	54	52	46	45	63	64	55
Mining	42	38	41	41	24	50	53	47	54	53
Construction	57	51	53	42	44	62	49	45	43	42
Transportation	42	51	50	50	58	50	56	54	66	68
Electric, Gas Utilities	55	51	53	56	48	58	50	58	55	58
Wholesale Trade	44	42	47	58	54	53	52	57	59	58
Retail Trade	47	45	46	52	54	56	59	53	56	63
Banking	58	54	58	63	55	57	54	58	60	59
Other Finance	76	76	79	74	76	64	61	65	65	61
Insurance	64	63	60	68	68	63	62	62	64	71
Business Services	62	50	51	58	62	58	52	60	55	63

The **Measure of Business Confidence** is the average of the scores for Questions 1,2, and 3. There are five reply options for each question; a score for each question is determined by assigning the following values to the replies and calculating the average: Substantially Better—100; Moderately Better—75; Same—50; Moderately Worse—25; Substantially Worse—0. The score for each question, and the **Measure of Business Confidence**, thus can range from 0 to 100.

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